

Pension Fund Committee AGENDA

DATE: Tuesday 27 November 2018

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:

Antonio Weiss

Norman Stevenson
Bharat Thakker (VC)

Non-Voting Co-optee:

Mr H Bluston

Trade Union Observer(s):

Mr J Royle – UNISON
Ms P Belgrave – GMB

Independent Advisers

Mr C Robertson
Honorary Alderman R Romain

Reserve Members:

1. Keith Ferry
2. Dean Gilligan

1. Kanti Rabadia
2. Amir Moshenson

Contact: Daksha Ghelani, Senior Democratic Services Officer
Tel: 020 8424 1881 E-mail: 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.

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: Monday 19 November 2018

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

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

Reserve Members may attend meetings:-

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

2. DECLARATIONS OF INTEREST

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

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

3. MINUTES (Pages 7 - 12)

That the minutes of the meeting held on 12 September 2018 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 in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, Thursday 22 November 2018. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

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

6. DEPUTATIONS

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

7. PENSION FUND COMMITTEE - UPDATE ON REGULAR ITEMS (Pages 13 - 18)

Report of the Director of Finance

8. INFORMATION REPORT - QUARTERLY TRIGGER MONITORING- QUARTER 3 2018 (Pages 19 - 26)

Report of the Director of Finance

9. INFORMATION REPORT - PIRC PERFORMANCE MEASUREMENT REPORT FOR PERIOD ENDING 30 SEPTEMBER 2018 (Pages 27 - 36)

Report of the Director of Finance

10. INFORMATION REPORT - PENSION FUND RISK REGISTER (Pages 37 - 50)

Report of the Director of Finance

11. ANY OTHER URGENT BUSINESS

Which cannot otherwise be dealt with.

12. EXCLUSION OF THE PRESS AND PUBLIC

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

| <u>Agenda Item No</u> | <u>Title</u> | <u>Description of Exempt Information</u> |
|-----------------------|----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| 13 | Information Report - Pension Fund Risk Register - Appendix 3 | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 14 | Information Report - Local Government Scheme Pension Scheme Amendment Regulations | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 15 | Investment Strategy Manager Review and Pooling Update | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 16 | Information Report - Investment Manager Performance Monitoring for period ending 30 September 2018 | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |

| | | |
|----|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| 17 | Investment Consultancy Services Procurement | Paragraph 3 - Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
|----|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|

AGENDA - PART II

13. INFORMATION REPORT - PENSION FUND RISK REGISTER (Pages 51 - 62)

Appendix 3 to the Report of the Director of Finance at item 10 above

14. INFORMATION REPORT - LOCAL GOVERNMENT SCHEME PENSION SCHEME AMENDMENT REGULATIONS (Pages 63 - 80)

Report of the Director of Finance

15. INVESTMENT STRATEGY MANAGER REVIEW AND POOLING UPDATE (Pages 81 - 92)

Report of the Director of Finance

16. INFORMATION REPORT - INVESTMENT MANAGER PERFORMANCE MONITORING FOR PERIOD ENDING 30 SEPTEMBER 2018 (Pages 93 - 186)

Report of the Director of Finance

17. INVESTMENT CONSULTANCY SERVICES PROCUREMENT (Pages 187 - 190)

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

12 SEPTEMBER 2018

| | | |
|-----------------------------------|---------------------------------|------------------------|
| Chair: | * Councillor Nitin Parekh | |
| Councillors: | * Norman Stevenson | * Antonio Weiss |
| | * 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 |

* Denotes Member present

18. Attendance by Reserve Members

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

19. Declarations of Interest

RESOLVED: To note that the following interests were declared:

All Agenda Items

Councillor Norman Stevenson 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.

Councillor Bharat Thakker declared a non-pecuniary interest in that he had a personal investment made by Standard Life. He would remain in the room whilst the matters were considered and voted upon.

Howard Bluston, non-voting co-optee, declared non-pecuniary interests in that he had previously worked with AON Hewitt and that he knew a number of Fund Managers, including BlackRock. He would remain in the room whilst the matters were considered and voted upon.

Colin Cartwright, Aon Hewitt, declared that his wife had a small investment in GARS. He would remain in the room whilst the matters were considered and voted upon.

Colin Robertson, Independent Adviser, declared that he and his mother had personal investments in GARS. He would remain in the room whilst the matters were considered and voted upon.

20. Minutes

RESOLVED: That the minutes of the meeting held on 27 June 2018 be taken as read and signed as a correct record subject to the following amendment:

Minute 16 – Investment Manager Performance Monitoring for period ending 31 March 2018

Paragraph 2, line 6 – insert full stop after ‘sectors such as oil were excluded’ and delete remainder of paragraph.

21. Public Questions

RESOLVED: To note that no public questions were received.

22. Petitions

RESOLVED: To note that no petitions had been received.

23. Deputations

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

RESOLVED ITEMS

24. Appointment of Non-Voting Co-optee

RESOLVED: To note that Howard Bluston had been appointed as a non-voting co-optee on the Pension Fund Committee for the Municipal Year 2018/19 under the same arrangements as 2017/18 with no advisory or representative duties attached to the role.

25. Pension Fund Committee - Update on Regular Items

The Committee received a report of the Director of Finance which provided an update on the work programme, the performance of Fund Managers, issues raised by the Pension Board and the external audit opinion of the Pension Fund Annual Report and Statement of Accounts for 2017/18.

An officer outlined the content of the report and advised that the Pension Regulator would be making a presentation to the Pension Board at their meeting on 20 September 2018. Members of the Committee were invited to attend this meeting.

In terms of the transfer of the passive equity funds held with State Street Global Advisors Ltd to BlackRock, the officer advised that the transition had commenced on 7 September 2018. Monies had been transferred but the governance arrangements were yet to be finalised.

In discussing the report, members of the Committee and Independent Advisers made the following comments:

- the Committee agendas were 'light' and there needed to be a greater overview of the Fund;
- there was a need to understand Harrow's modelling in relation to the Fund including liability, deficit, asset allocation and the role of the Committee;
- training for the Committee should be extended in terms of time allowed and perhaps start at the earlier time of 5.00 pm or alternatively start the formal Committee meeting at the later time of 7.00 pm. In addition, officers were requested to clarify to fund managers and the CIV (Collective Investment Vehicle) that such training was not part of the formal Committee meeting;
- a specific training session on which funds should be moved to the CIV would be helpful.

The officer sought the Committee's views as to the date of the 'Meet the Manager' session and the fund managers that should be requested to attend. Colin Cartwright, AON Hewitt, suggested that consideration be given to the direction of travel, and in particular whether the Council was looking to transfer to the CIV funds managed by the manager. He added that the Committee needed to be clear on the priorities in terms of meeting the managers.

A Member expressed the view that revisiting existing fund managers at the 'Meet the Manager' event would not add any value unless transferring them to the CIV was to be considered. An observer added that the Committee should meet those fund managers with a record of poor performance whilst an Independent Adviser suggested that the prospective London CIV infrastructure manager be invited to attend if this was possible.

The Committee agreed that the 'Meet the Manager' event be held from 1.00 pm – 6.00 pm on Monday 5 November 2018. Prior to this Members agreed that they hold an informal meeting at 5.30 pm on Monday 8 October 2018 in order to determine the priorities for the 'Meet the Manager' day and to confirm the fund managers to be invited on 5 November. Colin Cartwright, AON Hewitt, undertook to prepare a proposals paper setting out options or gaps.

RESOLVED: That

- (1) the work programme for the period up to March 2019 be agreed;
- (2) the 'Meet the Manager' event be held from 1.00 pm – 6.00 pm on Monday 5 November 2018;
- (3) the interviews for Investment Consultant be held from 1.00 pm – 6.00 pm on Monday 12 November 2018.

26. Information Report - Quarterly Trigger Monitoring Q2 2018

The Committee received report from the Fund's investment advisers, Aon Hewitt, on Quarterly Trigger Monitoring.

Members noted that the funding level as at 30 June was 80% and that liabilities had remained reasonably flat. A Member suggested that an explanation of this be included in future reports and both the officer and Colin Cartwright, Aon Hewitt, undertook to discuss this with Hymans Robertson. In terms of preparation for Brexit, Aon Hewitt would prepare a generic report for the Committee's consideration. Colin Robertson, independent adviser, reminded the Committee that the valuation of the Fund would potentially take place on the same day as Brexit, that is 31 March 2019.

The Committee requested that the risk register be submitted to the next meeting.

RESOLVED: That the report be noted.

27. Performance Measurement Services

The Committee received a report provided by Pension and Investment Consultants Ltd (PIRC) which analysed the fund's performance.

Colin Robertson, independent adviser, informed the Committee that PIRC undertook peer review across a large number of local authorities. They also measured the performance of the Harrow Fund against the strategic benchmark. However, this was done for only a small number of local authorities and this may have led to his concerns as to PIRC's ability to compare the Fund against the benchmark.

In response to a Member's question as to whether there was any benefit to the benchmark comparison work PIRC undertook for Harrow, Colin Robertson

advised that such work was usually carried out by the fund's custodian but that Harrow did not have a custodian. Comparison with the benchmark was essential information for the Committee. He indicated that he had questions about the latest set of figures which would be forwarded to PIRC.

Having agreed to amend the recommendation, it was

RESOLVED: That

- (1) the report from PIRC be noted;
- (2) the Committee defer advising on the format and presentation until the appointed consultant could provide advice.

28. 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 item for the reasons set out below:

| <u>Item</u> | <u>Title</u> | <u>Reason</u> |
|-------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 13. | London Collective Investment Vehicle Investment Strategy and Pooling Update | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |
| 14. | Information Report – Investment Manager Performance Monitoring for the period ending 30 June 2018 | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |

29. London Collective Investment Vehicle Investment Strategy and Pooling Update

The Committee received a confidential report which advised of the actions taken to invest passive equity in the London Collective Investment Vehicle and asked Members to consider next steps required to manage the Fund investment strategy which would meet the requirement to invest through the London Collective Investment Vehicle.

RESOLVED: That the actions taken by London CIV to improve engagement and communication starting by consulting with the member boroughs of the London CIV on asset classes and asset strategy be noted.

30. Information Report - Investment Manager Performance Monitoring for period ending 30 June 2018

The Committee received a confidential information report which set out Aon Hewitt's quarterly report on Harrow's investment managers.

Richard Romain, independent adviser, suggested that the Sharp Ratio be included in a training session to ensure that the Committee had an understanding of this measure.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.56 pm).

(Signed) COUNCILLOR NITIN PAREKH
Chair

REPORT FOR: Pension Fund Committee

| | |
|-----------------------------|--------------------------------------------------|
| Date of Meeting: | 27 November 2018 |
| 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 2019 be agreed.

Section 2 – Report

A Introduction

1. This report updates the Committee on regular items as follows:
 - Draft work programme for 2018-19 (Sub-section B)
 - Performance of fund managers for periods ended 30 September 2018 (Sub-section C)
 - Issues raised by Pension Board (Sub-section D)

B Draft Work Programme 2018-19

November 2018 – “Meet the Managers” – date to be confirmed

27 November 2018

Update on regular items:

- Draft work programme for 2018-19 and 2018-19
- Performance of fund managers for periods ended 30 September 2018
- Issues raised by Pension Board
- Emerging risks

Investment manager monitoring

Pooling and London Collective Investment Vehicle update

Quarterly trigger monitoring

Review of Risk Register

Investment review update

Investment Consultancy contract appointment update

Environmental, social and governance Issues

Training session at 5.30 – Presentation from Fund Actuary Hymans Robertson.

12 March 2019

Update on regular items:

- Draft work programme for 2019-20
- Performance of fund managers for periods ended 31.12.18
- Issues raised by Pension Board
- Emerging risks

Investment manager monitoring

Pooling and London Collective Investment Vehicle

Monitoring of operational controls at managers

External Audit plan

Training programme 2019-20

Quarterly trigger monitoring

Environmental, social and governance Issues

Training session at 5.30 – tbc

2. 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.
3. 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 Period Ended 30 September 2018

4. Attached is a table summarising the Fund valuation from 1st July 2018 to 30 September 2018 and movement in the fund valuation for the year to date.
5. 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 performance report from PIRC and the information arising there from will be available at future committee meetings.
6. On 28th June 2017 the Committee agreed revisions to the investment strategy which included reducing the strategic asset allocation to global equities to 42% and to emerging market equities on a pro rata basis. The re-allocations are being made on a phased basis and recommendations are set out in the exempt report Equity and Diversified Growth Recommendation.
7. On 5th November 2017, the Committee agreed an immediate fund rebalancing exercise to reduce the equity weighting of the fund assets to 50%. The asset re-allocation required an equity reduction of £107m and a transfer of £25m cash. This transfer resulted in an increase in Diversified Growth Fund manager's holdings to 22% of fund assets, (the target allocation). In total £132m was transferred to Insight and Standard Life. (£65m was taken from State Street, £25m from GMO and £17m from Oldfields). The transition was completed by 12th December 2017.
8. On 27th June 2018 the Pension Fund Committee agreed to move the passive equity funds held with State Street Global Advisors Ltd (SSAG) to Blackrock one of the London CIV preferred providers. £218.3m was transitioned from SSGA to Blackrock in September 2018.
9. There was a bulk transfer following the merger of Harrow College with Uxbridge College. The assets of Harrow College as at the calculated transfer date were £30.4 million. The transfer was part-funded from £15 million cash and the balance from a drawdown from fund managers in March 2018. All of Harrow College's liabilities are passed to the LB Hillingdon Pension Fund.

10. The value of the Fund at the 31st March 2018 had increased over the year to £816m (£807m as at 31 March 2017). . By 30th September 2018 the market value of the fund was £850m and by 31st October 2018 the value of the fund had dropped to £824m. (see Appendix 1).

D Meetings of Pension Board

11. Pension Board met on 30 October 2018 and received a presentation from an officer from the Pension Regulator. Pension Board reviewed the funds breaches policy and received confirmation that there had been no reported breaches of law in the previous quarter

Financial Implications

12. 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

13. The Pension Fund has a risk register which includes all the risks identified which could affect the management of the Pension Fund. There are no new emerging risks to report

Equalities implications

14. 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, 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: 14 November 2018

Ward Councillors notified:

Not applicable

Section 4 - Contact Details

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

Background Papers - None

Fund Valuation and Performance

30th September & 31st October 2018

| Asset Class | Value 31.03.2018 £'000 | Value 30.09.2018 £'000 | Value 31.10.2018 £'000 | Allocation 31.10.2018 % | Strategic Allocation % | Strategic Range % |
|------------------------------------|------------------------------|------------------------------|------------------------------|-------------------------------|------------------------------|-------------------------|
| Global Equities | | | | | | |
| Longview (Aug17 with CIV Unhedged) | 90,034 | 106,376 | 101,886 | 12 | 10 | |
| State Street | 196,717 | 0 | 0 | 0 | 0 | |
| Blackrock | 0 | 220,961 | 208,662 | 25 | 24 | |
| GMO | 77,181 | 71,607 | 67,849 | 8 | 8 | |
| Oldfields | 66,236 | 71,982 | 70,572 | 9 | 8 | |
| Record passive currency hedge | 5,865 | -5,281 | -3,635 | N/A | N/A | |
| Total Global Equities | <u>436,033</u> | <u>465,644</u> | <u>445,335</u> | | | |
| Total Equities | <u>436,033</u> | <u>465,644</u> | <u>445,335</u> | <u>54</u> | <u>50</u> | <u>45-55</u> |
| Private Equity | | | | | | |
| Pantheon | 13,844 | 14,322 | 14,322 | | | |
| Total Private Equity | <u>13,844</u> | <u>14,322</u> | <u>14,322</u> | <u>2</u> | <u>5</u> | <u>4-6</u> |
| Property | | | | | | |
| Aviva | 67,656 | 68,793 | 68,920 | | | |
| Total - property | <u>67,656</u> | <u>68,793</u> | <u>68,920</u> | <u>8</u> | <u>10</u> | <u>8-12</u> |
| Bonds | | | | | | |
| Blackrock - FI | 81,651 | 80,832 | 80,491 | 11 | 10 | |
| Blackrock - IL | 20,794 | 20,288 | 20,877 | 3 | 3 | |
| Total Bonds | <u>102,445</u> | <u>101,120</u> | <u>101,368</u> | <u>13</u> | <u>13</u> | <u>11-15</u> |
| Alternatives | | | | | | |
| Insight | 93,978 | 95,738 | 92,923 | 11 | 11 | |
| Standard Life | 95,601 | 93,554 | 91,405 | 11 | 11 | |
| Total Alternatives | <u>189,579</u> | <u>189,292</u> | <u>184,328</u> | <u>22</u> | <u>22</u> | <u>20-24</u> |
| Cash & NCA | | | | | | |
| Cash Managers | 53 | 757 | 763 | | | |
| Cash NatWest | 3,205 | 8,281 | 6,345 | | | |
| Cash Custodian (JP Morgan) | 1,438 | 3 | 3 | | | |
| Debtors and Creditors | 1,728 | 1,973 | 1,973 | | | |
| CIV Investment | 150 | 150 | 150 | | | |
| Total Net Current Assets | <u>6,574</u> | <u>11,164</u> | <u>9,234</u> | <u>1</u> | <u>0</u> | |
| Total Assets | <u>816,131</u> | <u>850,335</u> | <u>823,507</u> | <u>100</u> | <u>100</u> | |

REPORT FOR: Pension Fund Committee

Date of Meeting: 27 November 2018

Subject: Information Report – Quarterly Trigger Monitoring Q3 2018

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Quarterly Trigger Monitoring Q3 2018
(Aon Hewitt)

Section 1 – Summary

Summary

The Committee is requested note 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.

For Information

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 30 June 2018. The Committee are invited to note this report from Aon Hewitt as no de-risking actions are recommended at the current time.
4. The funding level as at 30 September 2018 was 82.0%, compared to 80.0% as at 30 June 2018 and 74.3% as at 31 March 2016 on belief that yields will rise faster than indicated by the market over the next three and five year period. The funding level rose over the quarter and long term bond yields remain at low levels. Aon believe that yields will rise faster than indicated by the market over the next three and five year period

Financial Implications

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

Risk Management Implications

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

Equalities implications

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

Council Priorities

- 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 | <input checked="" type="checkbox"/> | Director of Finance |
| Date: | 15 November 2018 | | |

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

Date: 13 November 2018
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Joseph Peach

Quarterly Trigger Monitoring – Q3 2018

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'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 30 September 2018 was 82.1%, compared to 80.0% as at 30 June 2018 and 74.3% as at 31 March 2016.

| 30 September 2018 | Ongoing Basis |
|-------------------|---------------|
| Assets | £847m |
| Liabilities | £1,031m |
| Surplus (deficit) | (£184m) |
| Funding Level | 82.1% |



Source: Hymans Robertson

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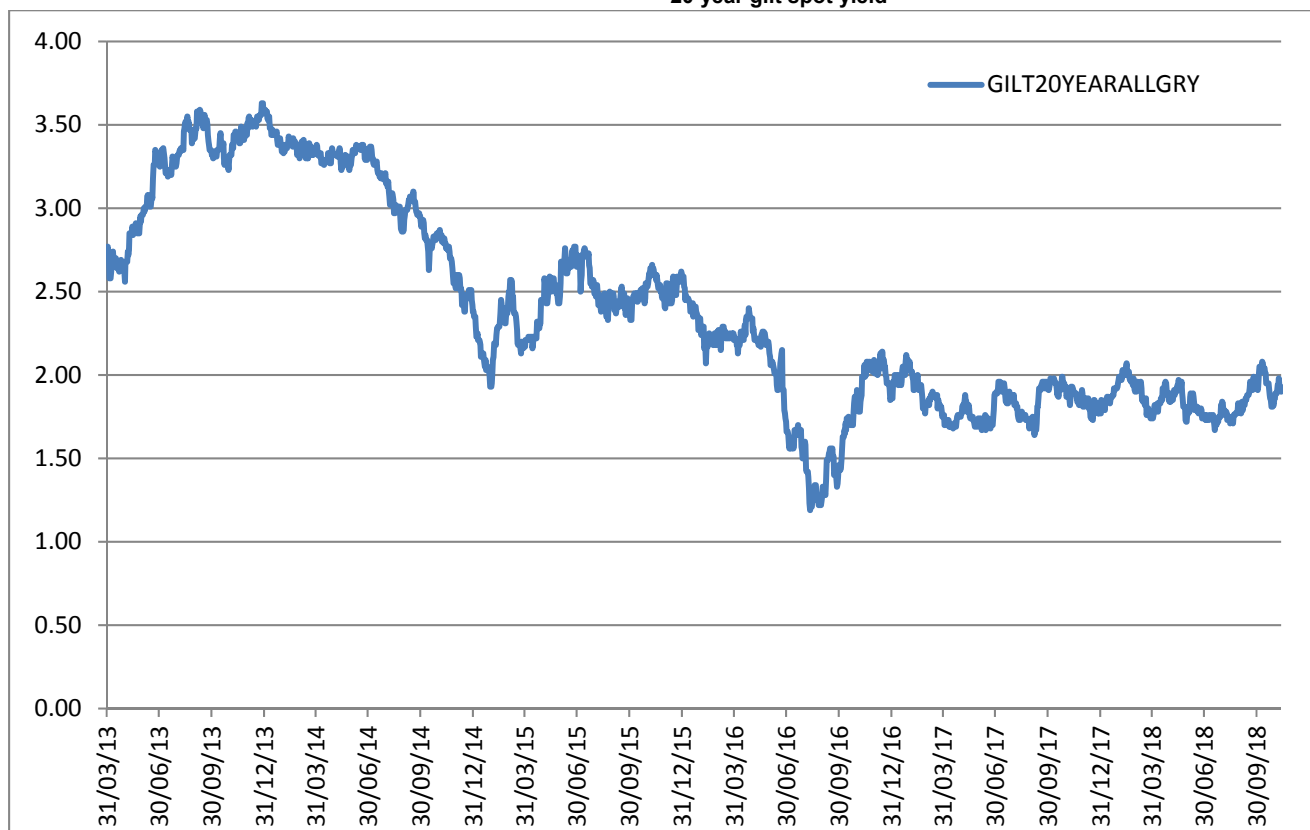
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20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 12 November 2018. Yields ended the third quarter of 2018 at 1.93%, an increase from their 1.76% level at the end of Q2 2018. Yields remained relatively stable throughout July and August but then began to rise through September and into October, hitting a peak of 2.08% in mid-October. Following a subsequent fall back, yields have begun to rise again in recent weeks.

20 year gilt spot yield



Aon views on bond yields

The table below sets out Aon's views versus the market in terms of spot and forward rates as at 16 October 2018.

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

| | 16 October 2018 | In 3 years | | | In 5 years | | |
|-------------------|-------------------|----------------|----------|-------|----------------|----------|-------|
| | 20 year Spot Rate | Market Pricing | Aon View | Diff | Market Pricing | Aon View | Diff |
| Real | -1.5% | -1.4% | -1.0% | +0.5% | -1.4% | -0.8% | +0.5% |
| Nominal | +2.1% | +2.3% | +2.9% | +0.6% | +2.3% | +2.8% | +0.4% |
| Breakeven* | +3.7% | +3.7% | +3.9% | 0.1% | +3.8% | +3.6% | -0.2% |

* Aon 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 interest rates will rise faster than the market is indicating, but believe that the market is broadly forecasting breakeven inflation expectations accurately.

Conclusion

The funding level rose over the quarter and long term bond yields remain at low levels. Aon 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.

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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: 27 November 2018

Subject: Information Report – PIRC Performance Measurement Report for the period ending 30 September 2018

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix 1 PIRC Performance Report to 30 September 2018

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) to 30 September 2018, as set out in the appendix. Committee are invited to comment on the format and presentation requirements for future reports.

For Information

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 presented the first of their quarterly reports to the Committee on 18 September 2017. Benchmarked performance to 30 September 2018 is set out in Appendix 1. The Committee is invited to comment on format and presentation requirements going forward.
4. the Fund has been advised that out of the PIRC universe of 61 LGPS funds the Harrow annual return performance to 31 March 2018 has been as follows:

| | Annual Performance (%) | Percentile |
|---------|------------------------|------------|
| 1 year | 5.3 | 10 |
| 3 years | 8.2 | 32 |
| 5 years | 9.5 | 20 |

Financial Implications

5. 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

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

Equalities implications

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

Council Priorities

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

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Director of Finance

Date: 15 November 2018

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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PIRC

**LOCAL AUTHORITY
PENSION PERFORMANCE ANALYTICS**



Harrow Pension Fund

Quarterly Performance Summary

Periods to end September 2018



Performance Overview

Fund Performance

| | Quarter | 1 Year | 3 Years (% p.a.) | 5 Years (% p.a.) |
|-----------|---------|--------|---------------------|---------------------|
| Fund | 2.8 | 5.7 | 12.3 | 9.8 |
| Benchmark | 3.4 | 8.6 | 13.3 | 10.1 |
| Relative | -0.5 | -2.7 | -0.9 | -0.3 |

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Manager Performance

| | Latest Quarter | | | 1 Year | | | 3 Years (% p.a.) | | |
|-----------|----------------|------|----------|-----------|------|----------|------------------|------|----------|
| | Portfolio | BM | Relative | Portfolio | BM | Relative | Portfolio | BM | Relative |
| Longview | 8.6 | 6.3 | 2.2 | 17.5 | 14.8 | 2.3 | 14.5 | 13.6 | 0.8 |
| SSGA | 5.3 | 5.7 | -0.4 | 12.9 | 13.4 | -0.4 | 19.5 | 19.8 | -0.2 |
| GMO | -3.8 | 0.1 | -3.9 | -5.1 | 2.0 | -7.0 | 12.5 | 18.1 | -4.7 |
| Oldfield | 3.2 | 6.3 | -2.9 | 8.2 | 14.8 | -5.8 | 19.9 | 19.6 | 0.3 |
| Pantheon* | 1.1 | 5.7 | -4.3 | 12.9 | 12.9 | 0.0 | 17.0 | 19.6 | -2.2 |
| Aviva | 1.3 | 1.7 | -0.4 | 7.4 | 8.9 | -1.4 | 6.3 | 7.5 | -1.1 |
| BlackRock | -0.9 | -0.9 | 0.0 | 0.1 | 0.2 | -0.1 | 6.6 | 6.2 | 0.3 |
| Insight | 2.1 | 1.2 | 0.9 | 2.2 | 4.6 | -2.3 | 4.7 | 4.5 | 0.2 |
| SLIM | 0.4 | 1.2 | -0.8 | -1.6 | 4.6 | -5.9 | -0.3 | 4.5 | -4.6 |

*The Pantheon performance uses the previous quarter value adjusted for cash flows in the month. As a long term investment the longer term results are the key indicators for this portfolio.



Asset Allocation

Asset Allocation

| | Start Quarter | | End Quarter | | % BM |
|---------------------------|----------------|------------|----------------|------------|------------|
| | GBP'000s | % | GBP'000s | % | |
| Equity | 452,211 | 54 | 471,108 | 56 | 50 |
| Longview | 97,940 | 12 | 106,376 | 13 | 10 |
| Passive* | 210,080 | 25 | 221,144 | 26 | 24 |
| GMO | 74,409 | 9 | 71,606 | 8 | 8 |
| Oldfield | 69,782 | 8 | 71,982 | 8 | 8 |
| Private Equity | 14,116 | 2 | 13,419 | 2 | 5 |
| Pantheon | 14,116 | 2 | 13,419 | 2 | 5 |
| Property | 68,371 | 8 | 68,793 | 8 | 10 |
| AVIVA | 68,371 | 8 | 68,793 | 8 | 10 |
| Bonds | 101,866 | 12 | 101,120 | 12 | 13 |
| BlackRock | 101,866 | 12 | 101,120 | 12 | 13 |
| Diversified Growth | 187,210 | 23 | 189,292 | 22 | 22 |
| Insight | 93,922 | 11 | 95,738 | 11 | 11 |
| SLIM | 93,288 | 11 | 93,554 | 11 | 11 |
| Cash | 6,814 | 1 | 3,212 | 0 | 0 |
| Total Fund | 830,588 | 100 | 846,943 | 100 | 100 |

The Fund asset allocation remained broadly unchanged over the quarter.

*The passive equity assets were moved from SSGA to Blackrock on September 7th.



Performance Attribution by Manager

| | Longview | Passive | GMO | Oldfield | Pantheon | Aviva | BlackRock | Insight | SLIM | Cash | Total |
|--------------------------|------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|----------------|
| EndSep 2018 (£'000s) | 106,376 | 221,144 | 71,606 | 71,982 | 13,419 | 68,793 | 101,120 | 95,738 | 93,554 | 3,212 | 846,943 |
| Latest Quarter | | | | | | | | | | | |
| Fund | 8.6 | 5.3 | -3.8 | 3.2 | 1.1 | 1.3 | -0.9 | 2.1 | 0.4 | | 2.8 |
| BM | 6.3 | 5.7 | 0.1 | 6.3 | 5.7 | 1.7 | -0.9 | 1.2 | 1.2 | | 3.4 |
| Relative | 2.2 | -0.4 | -3.9 | -2.9 | -4.3 | -0.4 | 0.0 | 0.9 | -0.8 | | -0.5 |
| <i>Manager Impact</i> | <i>0.3</i> | <i>-0.1</i> | <i>-0.3</i> | <i>-0.2</i> | <i>-0.1</i> | <i>0.0</i> | <i>0.0</i> | <i>0.1</i> | <i>-0.1</i> | | <i>-0.5</i> |
| <i>Allocation Impact</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>-0.1</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> |
| One Year | | | | | | | | | | | |
| Fund | 17.5 | 12.9 | -5.1 | 8.2 | 12.9 | 7.4 | 0.1 | 2.2 | -1.6 | | 5.7 |
| BM | 14.8 | 13.4 | 2.0 | 14.8 | 12.9 | 8.9 | 0.2 | 4.6 | 4.6 | | 8.6 |
| Relative | 2.3 | -0.4 | -7.0 | -5.8 | 0.0 | -1.4 | -0.1 | -2.3 | -5.9 | | -2.7 |
| <i>Manager Impact</i> | <i>0.3</i> | <i>-0.1</i> | <i>-0.6</i> | <i>-0.5</i> | <i>0.0</i> | <i>-0.1</i> | <i>0.0</i> | <i>-0.4</i> | <i>-0.8</i> | | <i>-2.3</i> |
| <i>Allocation Impact</i> | <i>0.0</i> | <i>-0.1</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>0.0</i> | <i>-0.2</i> | <i>-0.2</i> |
| Three Years | | | | | | | | | | | |
| Fund | 14.5 | 19.5 | 12.5 | 19.9 | 17.0 | 6.3 | 6.6 | 4.7 | -0.3 | | 12.3 |
| BM | 13.6 | 19.8 | 18.1 | 19.6 | 19.6 | 7.5 | 6.2 | 4.5 | 4.5 | | 13.3 |
| Relative | 0.8 | -0.2 | -4.7 | 0.3 | -2.2 | -1.1 | 0.3 | 0.2 | -4.6 | | -0.9 |
| <i>Manager Impact</i> | <i>0.1</i> | <i>0.0</i> | <i>-0.5</i> | <i>0.1</i> | <i>0.0</i> | <i>-0.1</i> | <i>0.0</i> | <i>-0.1</i> | <i>-0.4</i> | | <i>-0.7</i> |
| <i>Allocation Impact</i> | <i>0.0</i> | <i>0.1</i> | <i>0.1</i> | <i>0.0</i> | <i>-0.1</i> | <i>0.1</i> | <i>0.1</i> | <i>0.1</i> | <i>0.1</i> | <i>-0.3</i> | <i>0.0</i> |
| Five Years | | | | | | | | | | | |
| Fund | 13.1 | 11.5 | | | 16.7 | 9.7 | 7.3 | | | | 9.8 |
| BM | 10.9 | 11.6 | | | 12.8 | 10.7 | 7.5 | | | | 10.1 |
| Relative | 2.0 | -0.1 | | | 3.4 | -0.9 | -0.2 | | | | -0.3 |

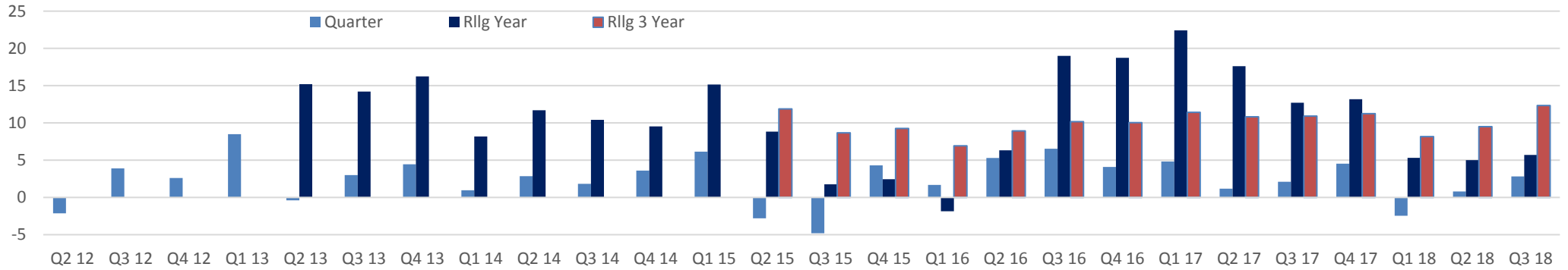
Insight was appointed in January 2015 therefore do not yet have 5 year performance available

GMO and Oldfields were appointed November 2014 and SLIM appointed June 2013 therefore no 5 year results available.



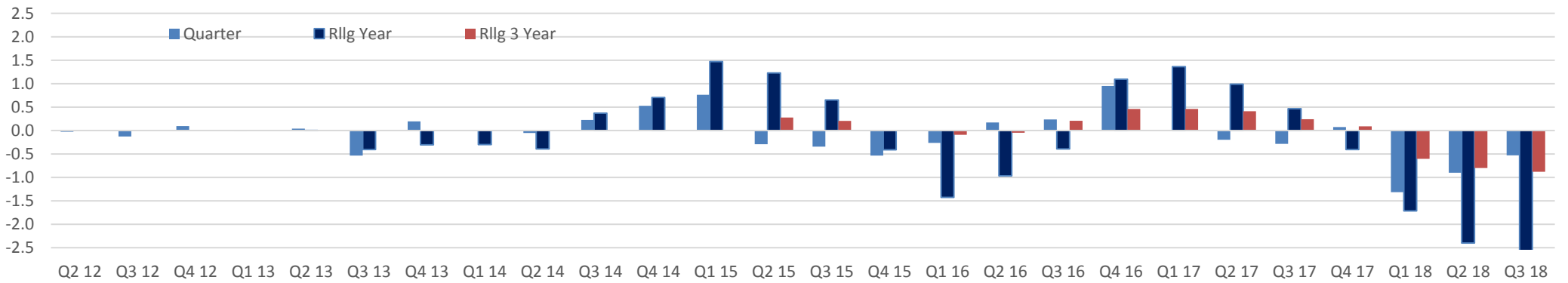
Longer Term Performance

Absolute Returns



The Fund has produced a positive return in almost every quarter of the last five years and most rolling one and three year periods.

Relative Returns



The Fund has performed within a tight range of its Benchmark - within +/- 2% quarterly and longer term.

After a period ahead of Benchmark the Fund is now trailing outwith that band as the recent underperformance feeds in to the longer term.



Benchmark Allocation

The Fund restructured in late 2017 and the Benchmark was altered from the start of 2018 to reflect the changes:

| % | To 31/12/2017 | From 1/1/2018 | |
|--------------------|---------------|---------------|-----------------------------------|
| Equity | 62 | 50 | |
| | 31 | 24 | FTSE AW (50% Hedged)* |
| | 21 | 18 | MSCI World NDR (50% Hedged) |
| | 10 | 8 | MSCI Emerging Markets |
| Bonds | 13 | 13 | |
| | 10.4 | 10 | BAML Eurosterling > 10 years |
| | 2.6 | 3 | FTSE Index Linked Gilts > 5 years |
| Property | 10 | 10 | IPD All Balanced Funds |
| Diversified Growth | 10 | 22 | 3 Month LIBOR +4% |
| Private Equity | 5 | 5 | FTSE All World ** |

* from Q2 2016, previously MSCI AW 50% Hedged

**from Q2 2014, previously LIBID

REPORT FOR: Pension Fund Committee

- Date of Meeting:** 27 November 2018
- Subject:** Information Report – Pension Fund Risk Register
- Responsible Officer:** Dawn Calvert, Director of Finance
- Exempt:** Part I with Part II Appendix – Appendix 3
Exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
- Wards affected:** All
- Enclosures:** Appendix 1 Risk Score Summary
Appendix 2 Risk Register
Appendix 3 Aon Hewitt Exempt Risk Report (Exempt)

Section 1 – Summary

Attached to this covering report as an appendix is a draft risk register for the Pension Fund to review and also in Appendix 3 an exempt risk report 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 and in 2017 the register was reviewed and the last version was agreed by the Committee on 27 June 2017.
3. Now that a further year has passed it is appropriate to review the register again. The views of the Pension Board will be invited and will be reflected in the revised risk register.
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

8. 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 November 2018

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

Section 4 - Contact Details

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

Background Papers - None

Appendix 1 Risk Register Scoring Summary

| PENSION FUND RISK REGISTER | | | | |
|-----------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------|
| LIKELIHOOD | | | | |
| A Very high | | | | |
| B High | | | | |
| C Significant | 44 | 15, 17, 23 | 24, 25, 26 | |
| 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 disruption 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 implemented | 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions Manager | E3 | 2018 | 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 |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------|------------------------------------------------------------------|-------------------------------|--------------------|-------------|---------------------|
| 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions Manager | D2 | | Director of Finance |
| 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 adverse movements. Some investment in bonds helps to mitigate risks. | C3 | C3 | | Treasury and Pensions Manager | C3 | | 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 |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------|------------------------------|-------------------------------|--------------------|-------------|---------------------|
| | 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 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 Pensions 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 Pensions 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 | C2 | C2 | | Treasury and Pensions Manager | C2 | | 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 | C2 | C2 | | Treasury and Pensions Manager | C2 | | Director of Finance |
| 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. | C2 | C2 | | Treasury and Pensions Manager | C2 | | 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 |
|-------------|-------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------|-------------|---------------------|
| 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 Pensions 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 Pensions 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 Pensions 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 Pensions Manager | D3 | | Director of Finance |
| | | | | | | Treasury and Pensions Manager | | | Director of Finance |
| | SECURITY | | | | | Treasury and Pensions 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 Pensions 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 Pensions 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 Pensions Manager | E2 | | Director of Finance |

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|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------|------------------------------|-------------------------------|--------------------|-------------|---------------------|
| 34 | Failure of custodian | Use custodians under banking and FSA regulation | E2 | E2 | | Treasury and Pensions 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 Pensions 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 Pensions Manager | E3 | | Director of Finance |
| | OPERATIONAL | | | | | | | | |
| 37 | Major emergency or system failure | Business Continuity Plan in place | E2 | E2 | | Treasury and Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions Manager | E4 | | Director of Finance |

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|-------------|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------|------------------------------|-------------------------------|--------------------|-------------|---------------------|
| 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 Pensions 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 Pensions Manager | E3 | | Director of Finance |
| 46 | Breach of data protection legislation. | Data security protocol | E2 | E2 | | Treasury and Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions Manager | E3 | | Director of Finance |

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|-------------|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------|---------------------------------------------------------------------------------------------|-------------------------------|--------------------|-------------|---------------------|
| | 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 Pensions Manager | E2 | | Director of Finance |

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